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### Research Announcement

#### Insider patent holder licensing in an oligopoly market and different cost structure: fee, royalty, and auction

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#### Abstract

The issue of an optimal licensing contract in firms having different cost structures is studied when the innovator is an insider who produces in the market and has three alternative licensing strategies: fixed fee, royalty, and auction. We only focus on the non-drastic innovation case, because it is seldom seen that firm which has not been licensed is kicked out of the market. In our analysis the effect of the firms' cost structure difference is important. Our result is contrary to Fosfuri and Roca (2004) and Kabiraj (2004). We conclude that the patent holder always uses the royalty contract to license to both firms if the innovation is small or to license to one firm if the innovation size is large. Moreover, the auction licensing strategy is always dominated by the other licensing strategies.

Completed draft available on request from:

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